



national farmers union
In Union is Strength

250C - 2ND AVENUE SOUTH,
SASKATOON, SASK. S7K 2M1
TELEPHONE: (306) 652-9465

CA1
DA12
-S71

**Submission
to the
Canadian Grain Commission**

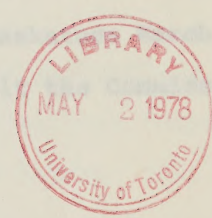
on the subject of

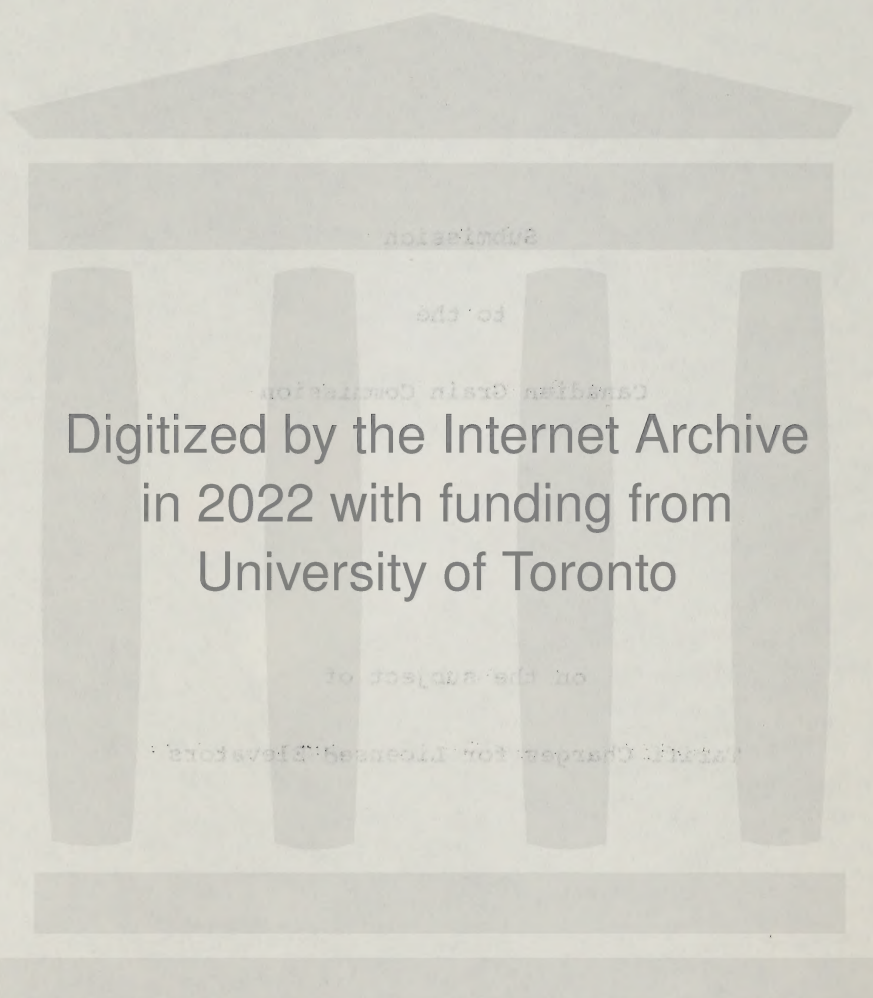
Tariff Charges for Licensed Elevators

presented at

Saskatoon, Saskatchewan

March 29, 1978





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Submission

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Tariff Charges for Licensed Elevators

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March 29, 1978

1. It is now four years and five months since the date of your Commission's last public hearing on elevator tariff charges held in Regina, October 30, 1973.
2. Prior to that hearing, Chief Commissioner Pound in addressing a Grain Handling and Transportation Seminar held in Saskatoon March 8 and 9, 1973, outlined five alternative principles he felt the Commission could follow in setting tariff rates.
3. Those five principles, in summary were:
 1. Selective and specifically cost-tailored rates that put the full load directly on the grain as it moves through various services of elevation, storage, cleaning and conditioning.
 2. Specific overall rates that would limit the entire system, but would give the companies freedom to respond within the single rate as they see best.
 3. Continue to deal with individual rate categories and individual companies.
 4. Set a very high level of maximum tariffs, without much regard for anything but an overall umbrella on the system, and let the companies compete with tariffs.
 5. The Canadian Grain Commission get completely out of tariff-setting and, similar to number 4, let the companies set their own tariffs.

March 29, 1978

1. It is now four years and five months since the date of your Commission's last public hearing on elevator tariff charges held in Regina, October 30, 1973.
2. Prior to that hearing, Chief Commissioner Brown in addressing a Grain Handling and Transportation Seminar held in Saskatoon March 5 and 6, 1977, outlined five alternative principles to which the Commission could follow in setting tariff rates.
3. Those five principles, in summary were:
 1. Selective and specifically cost-related rates that pay for services of elevation, storage, cleaning and conditioning.
 2. Specific overall rates that would limit the entire system.
 3. That would give the companies freedom to respond within the range rates as they see best.
 4. Continue to deal with individual rate categories and individual companies.
 5. Set a very high level of maximum tariff, without such regard for economy but no overall umbrella on the system, and let the companies compete with tariffs.
 6. The Canadian Grain Commission get completely out of tariff-setting and, rather to monitor A, let the companies set their own tariffs.

4. The Commission eventually followed option number 4 and in so doing, we believe, abrogated its historic responsibility for protecting the legitimate economic interests of primary producers through the establishment of tariffs.

5. The effect of imposing a high maximum tariff and relying on "competition" to protect the economic interests of farmers simply has not been evident. If competition has resulted, it has not been reflected in the rate schedules.

6. From the very first year in which a flexible tariff schedule was implemented, it has been characterized by its almost unbroken uniformity of rates, both as between companies and as between the vast majority of delivery points in each of the respective provinces.

7. Flexible tariffs have meant continuous increases in handling costs to farmers since the time of their inception, indicating that "competition" has not resulted in cost reducing tariff to the farmer. For example, the maximum tariff for elevation was fixed at 10 1/2¢ per bushel for '74-'75 and now is in the range of 14.4 cents for wheat and barley and 13.4 cents for oats. A common tariff charge filed by companies for wheat and barley in 1974-75 was 8 3/4 cents while in the current crop year it is in the 11-12 cent per bushel range.

8. The higher rate structure described as "an overall umbrella on the system" has been just that - an umbrella under which continued cross-subsidization from more efficient delivery points as determined by their higher turnover ratio has supported less efficient operations.

9. We need to seriously examine the criteria for efficiency in the content of grain handling.

10. We submit that if efficiency is measured by the ratio of turnover to elevator capacity, then some of the least efficient grain handling operations are now located at delivery points where a proliferation of

elevators and companies exists.

11. Two examples might serve to illustrate the point. At Rosetown, Saskatchewan, where four companies have eight elevators with a total capacity of 1,677,000 bushels, in 1976/77 crop year handled 3,588,000 bushels, a turnover ratio of 2.14. Watrous, on the other hand, located on the mainline CNR, has one company with two elevators and a capacity of only 178,000 bushels, but handled 1,076,000 bushels, a turnover ratio of 6.04.

12. We conclude that the economic interests of producers are better served at Watrous than they are at Rosetown.

13. We submit the Commission has an obligation and a responsibility to assure that excess capacity facilities are not unnecessarily concentrated at delivery points where the physical need is not apparent. To do so is simply to transfer greater long run cost burdens onto the primary producer.

14. It is not good enough in our view to follow a wide open policy in allowing companies to locate facilities wherever they will and then expect farmers to pick up the tab because throughput averages are lowered as a result. That is, in our view, allowing the problems of the past to be perpetuated in the guise of "competition".

15. If the objective of the grain industry and the commission is to rationalize the system in such a way as to improve the grain handling performance at delivery points which currently have over expanded facilities, it will only be achieved at the expense of eliminating many more delivery points some of which, from a turnover ratio position, are now efficient.

16. This is not to deny that the system can stand still further rationalization from the standpoint of the number of delivery points. An examination of statistics indicates that rationalization has in fact been

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progressing at a rapid rate and will continue as more branch rail lines are abandoned.

17. The number of delivery stations in the three prairie provinces and B.C. has declined in the period 1974-75 to 1977-78 from 1,599 to 1,422, a reduction of 177. The number of country elevators has declined from 4,332 to 3,779, a drop of 553 with an accompanying drop in licensed capacity from 427,375,300 to 398,320,100 or by 29,055,200 bushels.

<u>No. of Stations</u>	<u>Manitoba</u>	<u>Saskatchewan</u>	<u>Alberta & B.C.</u>	<u>Total</u>
1974/75	275	863	461	1,599
1977/78	253	751	418	1,422
Decline	<u>-22</u>	<u>-112</u>	<u>-43</u>	<u>-177</u>
<u>No. of Elevators</u>				
1974/75	534	2,397	1,401	4,322
1977/78	466	2,038	1,275	3,779
Decline	<u>-68</u>	<u>-359</u>	<u>-126</u>	<u>-543</u>
<u>Licensed Capacity ('000 bus.)</u>				
1974/75	55,869.3	205,681.9	164,884.1	427,375.3
1977/78	55,294.1	186,612.3	156,413.7	398,320.1
Decline	<u>1,515.2</u>	<u>19,069.6</u>	<u>8,470.4</u>	<u>29,055.2</u>

18. Currently there are 644 delivery points (45.3 percent) with only a one company presence. Of this number however there are 436 delivery points where the company in question operates 2 or more licensed facilities. In many cases, duplicate houses are little more than storage houses.

19. Further rationalization of the system is possible by eliminating the non-productive duplication now existing and in this way improving the overall turnover ratio without eliminating delivery points.

20. An interesting comparison on turnover ratio can be made by examining the average licensed capacity at each delivery point in each province and measuring that against average producer deliveries in the 1976-77 crop year to establish an average turnover ratio.

21. On the basis of the number of delivery points in each province,

the following statistics emerge:

	<u>Manitoba</u>	<u>Sask.</u>	<u>Alta. & B.C.</u>
No. of stations	253	751	418
No. of elevators	466	2,038	1,275
Av. cap. per station (bus.)	218,553	248,485	374,195
Av. no. of elevators per station	<u>1.84</u>	<u>2.71</u>	<u>3.05</u>
Total bushels delivered 1976/77 crop year ('000)	141,293	465,320	297,946
Av. del. per station (bus.)	558,470	619,600	712,789
Av. del. per elevator (bus.)	303,203	228,321	233,683
Av. elevator capacity	118,656	91,566	122,677
Av. turnover ratio (handling ÷ capacity)	<u>2.55</u>	<u>2.49</u>	<u>1.90</u>

22. The observation to be made is that, on average, the higher the number of elevators per delivery point, the lower the **average provincial** turnover ratio.

23. We conclude the problem of **productivity** efficiency relates not alone to the proliferation of delivery points, which serve the farmers' convenience, but also to the number of elevators located on average at each delivery point.

24. While it is held that the costs of providing grain handling services by elevator companies is outstripping their revenues, we submit the declining income position of the farmer must also be considered in terms of his ability to pay higher tariffs. Farm income has been on the decline since 1975.

25. Still, if one is to weight the remarks of the Chief Commissioner, Mr. Pound, to the convention of the Saskatchewan Association of Rural Municipalities, March 15, 1978, it is a foregone conclusion that the maximum tariff schedule will again be revised upward. The only unanswered question is by "how much".

26. In his address, Mr. Pound stated as follows:

"Costs-of-handling grain figures lead us to two conclusions: (1) elevators have to handle a lot more bushels; or (2) tariffs have to go up considerably.

"We've had a quick look at the bushels-handled answer and we say that even though companies handled a record or near record this past year--and hope to come close to that figure this year--soaring costs simply are out-distancing revenues at current handling figures and tariffs.

"The result is, unless there is a total industry move to close down, say, half the elevators in Western Canada, there is little prospect of immediately increasing efficiency significantly.

"Even inland terminals are not the answer now. Handling and railway tariffs are simply not large enough for inland terminals to undercut these charges significantly and attract significant volumes of grain--currently. And I stress 'currently'."

27. We question the expressed attitude that handling charges should be regarded as instruments of "competition" to allow inland terminals, through manipulation of rates, to attract grain from further distances.

28. The purpose of elevator tariffs must be related directly to the physical costs of handling grain. They are not intended, in our view, to be used as a means of bribing some farmers to haul longer distances by using high tariffs to subsidize hauling costs.

29. Neither should elevation costs be related to the costs of marketing as we suspect they now are. It is observed that most companies are well below maximum elevation and dockage removal tariff charges for wheat, oats and barley, which are marketed by the Canadian Wheat Board but are at the maximum tariff charge for flaxseed and rapeseed, both high volume open market grains. Marketing costs may be hedged by tariffs.

30. The suggestion that inefficiencies within the elevator system are of such drastic proportions that efficiency could not increase significantly unless half the elevators in Western Canada close down is not supported by the latest reports of some of the farmer owned grain companies.

31. The Alberta Wheat Pool, at its 55th annual meeting held last November, authorized patronage refunds totalling \$147 million, of which \$4.76 million was authorized for cash distribution.

32. The Saskatchewan Wheat Pool at its last annual meeting reported

country elevator earnings of \$3.8 million and terminal earnings of just under \$15 million. More than \$9.6 million was allocated for return to members in cash payments.

33. Each of these two companies handles over 50 percent of grain marketings in their respective provinces. Because they are farmer owned their function is to provide service to members "at cost".

34. "Profitability" by the conventional definition, could mean a high rate of return on inflated investment for private grain corporations. We submit that the profit needs of corporate grain companies need not constitute the basis for establishing tariff schedules if "competition" is the objective the Commission hopes to achieve.

Conclusions and Recommendations

35. The number of grain delivery points in future will undoubtedly continue to decline as it has in the past. This decline will be hastened as branch rail lines marked for early abandonment are closed down.

36. As the number of delivery points decline, the licensed capacity of elevators will also decline and assist in the rationalization of the system and the improvement in average throughput ratio of remaining elevators.

37. We submit the Canadian Grain Commission has a responsibility to prevent construction of unneeded and redundant facilities at remaining delivery points thereby once again distorting the efficiency of the remaining system.

38. Planning of the system must assume a higher priority. Elevator companies must be required to apply in advance for the right to construct new facilities. The C.G.C. must assure that the throughput efficiency ratio is not distorted by the construction of new facilities. We believe a high efficiency throughput ratio is of greater importance to

the farmer's economic interest than "competitive" considerations, particularly since official grade and dockage standards exist to assure the farmer receives proper financial settlement based on quality.

39. The Commission should examine the necessity of elevator companies maintaining excessive storage capacity at one company delivery points.

Where warranted, it should cancel licenses to discourage the accumulation of unwarranted storage costs assessed against the farmers.

40. The level of maximum tariffs should not be increased to permit the economic survival of the least economic handling facilities or companies.

41. We recommend the C.G.C. revert to its previous role of annually reviewing tariff schedules with a view toward protecting the economic interests of grain producers.

42. We recommend that in its review of tariff schedules the C.G.C. consider that tariffs must be a true reflection of service costs and do not have built in "padding" to allow for such unrelated "competitive" gimmicks as transportation allowances or to assist in defraying company marketing costs.

43. Once again, we recommend that the submissions of elevator companies be available to interested groups and individuals at least two weeks prior to public hearings in order that an objective analysis of the specifics of increases in charges can be made prior to preparing a response.

44. Finally, we recommend the Commission revert to the practice of holding annual public hearings. Intervals of five years are too long for meaningful public participation.

All of which is respectfully
submitted by the,

NATIONAL FARMERS UNION.



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